24 March 2017

**Australia’s Climate Policy Review needs to deliver our Paris Targets**

The Carbon Market Institute today welcomes the release of the Australian Government’s Discussion Paper, as part of its National Review of Climate Change Policies. The Review, which is set to conclude by the end of 2017, must set the course for Australia to achieve its emissions reduction target of 26 to 28% below 2005 levels by 2030.

**Submissions to the Review are due by 5th May, 2017.**

“The release of the Federal Government’s National Climate Policy Review Discussion Paper comes at a critical time to set the policies in place that will enable us to meet our 2030 Paris commitment and ultimately transition towards a zero-carbon economy,” says Peter Castellas, Chief Executive Officer of the Carbon Market Institute.

“We welcome that fact that the Discussion Paper released today is open-ended in nature and seeks views on a wide range of important questions and, as such, provides a real opportunity for the business community to inform and influence the Government’s key policy positions,” says Castellas.

“At present, there is uncertainty how the Federal Government’s current suite of climate policies will drive the below business as usual emissions reductions required to hit our targets. It is critical now that this Policy Review provides certainty around how the existing policy suite will evolve to achieve our current and future emissions reduction goals. The outcome of the review must provide clarity for business and the market stability needed to stimulate investment in clean energy and technology, emissions avoidance and carbon abatement,” Castellas says.

“Our climate policy framework needs to be a market based approach to emissions reduction that sends a carbon price signal to stimulate action and investment” says Castellas.

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**The role and operation of the Emissions Reduction Fund**

To meet our 2030 targets, longer term zero net emissions goals, and to provide heavy emitters with domestic compliance options, Australia needs a viable domestic carbon offset market.

“The Emission Reduction Fund is a well-designed, well-governed domestic offset scheme that is currently supported by government funding of contracted abatement. However, the funds available for the ERF may only support one or two more auctions. It is critical that the Policy Review consider the appropriate quantum of future funding allocations to the ERF, required to ensure the continuity of the domestic carbon offset industry until the time it transitions to a market driven by demand by companies captured under the safeguard mechanism,” says Castellas.
“We cannot let the ERF fall of a cliff. If we do not support the transition of the ERF to a fully private market we will lose capability and domestic abatement will cost more if we have to re-build capacity down the track”.

“The global demand for carbon offsets is set to increase as over 90 countries have indicated they will use markets to achieve their UN emission reduction targets. As the market provisions of the Paris Agreement get bedded down and domestic carbon markets are established in our region, an international market of significance could open up for the export of Australian carbon credit units. If we enhance and grow the supply of domestic carbon credits, Australia could be well positioned to benefit from supplying carbon units into emerging international markets,” says Castellas.

Evolution of the Safeguard Mechanism

Under the current suite of climate policies, the safeguard mechanism must do the bulk of the heavy lifting of the emissions reduction task out to 2030 and transition into an effective market based mechanism.

“If the safeguard mechanism is to endure as a policy mechanism, the review should consider how the trajectory of baselines set under it can be set to align with the trajectory of emissions reduction required under Australia’s current and future international emissions reduction commitments,” Castellas says.

“The Policy Review should provide clarity on the conditions, criteria and process for how emissions baselines under the safeguard mechanism will be adjusted in the pre and post-2020 period,” says Castellas.

“The evolution and adjustment of baselines under the Safeguard Mechanism will provide important market signals for long term investment certainty, and the development of carbon abatement activities across Australia,” Castellas added.

The Carbon Market Institute’s 2016 CMI Survey of senior and executive-level individuals indicated that Australian business strongly support (83% of respondents) the need for baselines under the Safeguard Mechanism to tighten over time.

“When declining safeguard baseline trajectories are made clear, private sector demand for domestic credits will likely kick in and this may obviate the need for any significant top up of ERF funding,” says Castellas.

Australia’s role in international carbon markets

Domestic climate policy cannot be developed in isolation of international developments.

The Paris Agreement is the mother of all market signals and the global emissions trajectory is down. We are seeing rapid developments in market based approaches to emissions reductions in key
trading partners. The review presents a timely and important opportunity to define Australia’s position in international carbon markets and align its policies with key jurisdictions such as China, Korea, California, New Zealand the EU.

Much of the Australian economy is exposed to this global shift towards ‘low or zero-carbon’ development. This will have direct and indirect economic consequences in both the short and long term as Australia’s energy intensive export orientated economy is exposed to markets, like China where there will be explicit carbon price and the fossil fuel energy mix is changing.

The review should encompass issues related to how Australia can participate in international trade in carbon including:

a. The use and eligibility of international units into Australia for compliance purposes;
b. The factors affecting future supply and demand for domestic and international units;
c. The potential export of Australian Carbon Credit Units; and
d. Options to link carbon markets under the Paris Agreement.

“Australia’s trading partners such as China are progressing with ambitious emissions reduction policies. When considering international development, it’s not only our potential negative impact on trade competitiveness that we should be considering but also the economic opportunities that are presented in the transition,” says Castellas.

“Ultimately, the review should consider and define the long term emissions reduction trajectory for the Australian economy beyond 2030 leading to net zero emissions,” says Castellas.

The Carbon Market Institute, looks forward to providing input into the policy review on how existing policies can ensure the effectiveness, stability and predictability of the domestic policy framework over the long term, and meet our national emissions reduction targets to 2030 and beyond,” says Castellas.

“This is the policy review we had to have,” says Castellas.